

Wall Street Playbook.

FREE FIELDNOTES / PRIVATE CREDIT

Private credit case: size the loan to cash

Briar Maintenance seeks a \$70m term loan. Management emphasizes adjusted EBITDA; the lending committee asks how much debt recurring cash flow supports. All names, policy limits and inputs below are fictional training assumptions.

THE TASK

Recommend a debt amount and explain the cash-flow and diligence limits behind it.

Analyst interview practice | Suggested session: 35 minutes

Updated 2 October 2026. Original exercises with stated assumptions and source notes.

How to use this resource

Work through the prompts before checking the answers. Keep a record of the assumption or step that caused difficulty, then repeat that part without notes. The suggested timing is a study aid, not an employer assessment standard.

The borrower and the proposed loan

For this exercise, cash available for debt service (CFADS) equals underwritten EBITDA minus capex, NWC investment and cash taxes. Debt service equals cash interest plus mandatory amortization. Use full-year interest on original debt for initial sizing. There are no fees, leases, revolver drawings or other debt. These are hypothetical credit-policy definitions, not universal market terms.

Annual input, \$m	Amount / assumption
Reported EBITDA	18
Management adjustment: prior litigation cost	+2; documented and nonrecurring for this exercise
Management adjustment: proposed future savings	+4; not implemented
Maintenance capex / operating NWC investment	5 / 2
Cash taxes	3; fixed assumption for this exercise
Opening unrestricted cash / minimum cash	6 / 4
Interest / mandatory principal amortization	10% / 5% of original debt annually
Requested original term debt	70
Committee leverage limit	3.5x underwritten EBITDA
Committee cash coverage floor	1.25x debt service

- Determine management and underwritten EBITDA.
- Calculate the requested loan's leverage and debt-service coverage.

- Size debt using both constraints and identify the binding one.
- Assess the downside and list the evidence you would request before approval.

Underwrite each adjustment

Accept the \$2m litigation adjustment only because the case explicitly stipulates evidence and nonrecurrence. Do not add the \$4m proposed savings to base EBITDA: the cost has not been removed. In real diligence, even a documented historical expense requires scrutiny of future recurrence and associated cash payments.

Reported / management-adjusted / underwritten EBITDA

CFADS / requested debt service / coverage

Debt allowed by leverage / debt allowed by coverage / recommendation

Worked solution: coverage binds before leverage

The requested loan meets the stated leverage ceiling but fails the cash-coverage floor. The lower constraint implies approximately \$53.33m debt before considering other risks. At that size, annual cash debt service is \$8m and coverage is 1.25x. This is a screening ceiling under the exercise assumptions, not an approval recommendation.

Opening cash above the \$4m minimum is \$2m. It can provide a temporary cushion, but should not be capitalized into recurring CFADS or counted repeatedly across years.

Calculation	Result
Management-adjusted EBITDA: $18 + 2 + 4$	\$24m
Underwritten EBITDA: $18 + 2$	\$20m
CFADS: $20 - 5 - 2 - 3$	\$10m
Requested loan leverage: $70 / 20$	3.50x
Requested annual debt service: $70 \times (10\% + 5\%)$	\$10.5m
Requested coverage: $10 / 10.5$	0.95x
Leverage-constrained debt: 20×3.5	\$70m
Coverage-constrained debt: $10 / (1.25 \times 15\%)$	\$53.33m

Stress the loan before writing the memo

Now reduce underwritten EBITDA by 20% to \$16m. Hold taxes and capex fixed at the given amounts and increase NWC investment to \$3m. Use the \$53.33m sized loan. Compute coverage, the annual cash shortfall and the effect on minimum cash. Assume cash movements occur evenly only for the purpose of estimating a rough runway.

Downside CFADS / debt service / coverage

Year-end cash / minimum cash breach

Diligence or structural change required

WORKED ANSWER

Downside answer

CFADS becomes $\$16 - \$5 - \$3 - \$3 = \$5\text{m}$. Debt service remains approximately $\$8\text{m}$ under the sizing convention. Coverage is $0.625\times$ and the annual shortfall is $\$3\text{m}$. Starting with $\$6\text{m}$ cash, year-end cash would be $\$3\text{m}$, below the $\$4\text{m}$ minimum by $\$1\text{m}$. The $\$2\text{m}$ usable cash cushion covers about eight months of a uniformly incurred $\$3\text{m}$ annual shortfall.

That runway is not a liquidity forecast: seasonality, payment dates and tax changes can move the breach much earlier or later. Ask for monthly cash data, a maturity schedule and customer-level collection history.

Write a conditional credit recommendation

- Distinguish a maintenance covenant calculation from the committee's sizing test; the legal agreement may define both differently.
- Ask whether maintenance capex has been understated or growth spending is necessary to preserve the forecast.
- Review collateral, security, ranking, maturity and restricted-payment terms alongside the numerical model.
- Do not replace diligence with a higher interest rate: more interest further reduces debt-service coverage.

Example committee note

The $\$70\text{m}$ request is unsupported by the stipulated cash-coverage test despite meeting $3.5\times$ leverage. A $\$53.33\text{m}$ loan satisfies the base sizing limits, but the downside falls below minimum cash. I would defer approval pending monthly liquidity analysis, evidence for the litigation adjustment, customer concentration and retention data, and a review of capex needs. Potential mitigants include less debt or more sponsor equity; each requires a fresh cash-flow and documentation review.

Source notes and next steps

SEC: non-GAAP financial measures

Background on definitions and reconciliation of adjusted measures. All lending terms and committee constraints here are fictional and explicitly defined.

<https://www.sec.gov/rules-regulations/staff-guidance/corporation-finance-interpretations/non-gaap-financial-measures>

Continue when you have identified a gap

Continue with longer underwriting cases, credit memos and interview simulations after working through this first cash-flow test.

Preview the private credit playbook

Read this resource online and find the current edition